

# INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expension Site, and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

## STATEMENT OF NET POSITION (Unaudited)

June 30, 2015

	VOLKSWAGEN GRANTS	VOLKSWAGEN PARTNERSHIP	TAX INCREMENT FINANCING (TIF)	INCENTIVE PROGRAM	2015 TOTAL	2014 TOTAL
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 7,108,129	\$ 11,358,676	\$ 289	\$ 187,496	\$ 18,654,590	\$ -
Receivables:						
City of Chattanooga	647,535	-	57,366	-	704,901	9,631
Hamilton County	3,409,393	-	30,314	-	3,439,707	-
State of Tennessee	962,170	-	-	-	962,170	2,202,728
Total current assets	<u>12,127,227</u>	<u>11,358,676</u>	<u>87,969</u>	<u>187,496</u>	<u>23,761,368</u>	<u>2,212,359</u>
<b>NONCURRENT ASSETS</b>						
Land	10,000,000	-	-	-	10,000,000	10,000,000
Leased assets	<u>231,640,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,640,986</u>	<u>202,973,056</u>
Total noncurrent assets	<u>241,640,986</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,640,986</u>	<u>212,973,056</u>
<b>TOTAL ASSETS</b>	<u>\$ 253,768,213</u>	<u>\$ 11,358,676</u>	<u>\$ 87,969</u>	<u>\$ 187,496</u>	<u>\$ 265,402,354</u>	<u>\$ 215,185,415</u>
<b>LIABILITIES AND NET POSITION</b>						
<b>CURRENT LIABILITIES</b>						
Due to City of Chattanooga	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 623,147
Due to Hamilton County	292,517	-	-	-	292,517	276,070
Due to Others	-	6,028,216	-	-	6,028,216	-
Accrued Liabilities	10,510,668	5,020,621	87,969	25,076	15,644,334	743,014
Retainage payable	<u>1,295,071</u>	<u>309,839</u>	<u>-</u>	<u>-</u>	<u>1,604,910</u>	<u>541,157</u>
Total current liabilities	<u>12,098,256</u>	<u>11,358,676</u>	<u>87,969</u>	<u>25,076</u>	<u>23,569,977</u>	<u>2,183,388</u>
<b>NET POSITION</b>						
Restricted for leased assets	241,640,986	-	-	-	241,640,986	212,973,056
Restricted for construction	28,971	-	-	-	28,971	28,971
Restricted for Eco. Incentive Programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,420</u>	<u>162,420</u>	<u>-</u>
Total net position	<u>241,669,957</u>	<u>-</u>	<u>-</u>	<u>162,420</u>	<u>241,832,377</u>	<u>213,002,027</u>
<b>TOTAL LIABILITIES AND NET POSITON</b>	<u>\$ 253,768,213</u>	<u>\$ 11,358,676</u>	<u>\$ 87,969</u>	<u>\$ 187,496</u>	<u>\$ 265,402,354</u>	<u>\$ 215,185,415</u>

The accompanying notes are an integral part of the financial statements.

**INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA**  
**(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's**  
**Expension Site, and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment**  
**Financing and Economic Development Incentive Programs for the City of Chattanooga)**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (Unaudited)

Year Ended June 30, 2015

	VOLKSWAGEN GRANTS	VOLKSWAGEN PARTNERSHIP	TAX INCREMENT FINANCING (TIF)	INCENTIVE PROGRAM	2015 TOTAL	2014 TOTAL
<b>OPERATING REVENUES</b>						
City of Chattanooga payment	\$ -	\$ -	\$ 78,285	\$ 200,000	\$ 278,285	\$ -
Hamiton County payment	-	-	32,907	-	32,907	-
Total operating revenues	-	-	111,192	200,000	311,192	-
<b>OPERATING EXPENSES</b>						
TIF Agency	-	-	87,969	-	87,969	-
TIF administrative fee - City of Chattanooga	-	-	3,914	-	3,914	-
TIF administrative fee - Hamilton County	-	-	1,645	-	1,645	-
TIF Debt Service Allocation to Chattanooga	-	-	12,735	-	12,735	-
TIF Refuse Pickup to City of Chattanooga	-	-	4,271	-	4,271	-
TIF Trustee Fee to Hamilton Co	-	-	658	-	658	-
Grant award	-	-	-	37,580	37,580	-
Total operating expenses	-	-	111,192	37,580	148,772	-
<b>OPERATING INCOME (LOSS)</b>	-	-	-	162,420	162,420	-
<b>CAPITAL CONTRIBUTION</b>						
Grant revenue - state grant 6.1	969,255	-	-	-	969,255	6,924,784
Grant revenue - state grant 6.2	1,934,757	-	-	-	1,934,757	21,070
Grant revenue - state grant 9.10	(1,588)	-	-	-	(1,588)	5,070
City of Chattanooga local matching funds	12,882,753	-	-	-	12,882,753	9,631
Hamilton County local matching funds	12,882,753	-	-	-	12,882,753	9,631
Private party - Silicon Ranch	-	-	-	-	-	22,522
Volkswagen Partnership expense	-	(6,196,784)	-	-	(6,196,784)	-
Volkswagen Partnership reimbursement	-	6,196,784	-	-	6,196,784	-
Total capital contributions	28,667,930	-	-	-	28,667,930	\$ 6,992,708
<b>CHANGE IN NET POSITION</b>	28,667,930	-	-	162,420	28,830,350	6,992,708
<b>NET POSITION - BEGINNING</b>	213,002,027	-	-	-	213,002,027	206,009,319
<b>NET POSITION - ENDING</b>	<u>\$ 241,669,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162,420</u>	<u>\$ 241,832,377</u>	<u>\$ 213,002,027</u>

The accompanying notes are an integral part of the financial statements.

# INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site, and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

## STATEMENT OF CASH FLOWS (Unaudited)

Year Ended June 30, 2015

	VOLKSWAGEN GRANTS	VOLKSWAGEN PARTNERSHIP	TAX INCREMENT FINANCING (TIF)	INCENTIVE PROGRAM	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Change in net position	\$ -	\$ -	\$ -	\$ 162,420	\$ 162,420
Increase in receivables			(87,680)		(87,680)
Increase in current liabilities			87,969	25,076	113,045
Net cash provided (used) by operating activities	-	-	289	187,496	187,785
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Change in net position	28,667,930	-	-	-	28,667,930
Increase in receivables	(2,806,739)	-	-	-	(2,806,739)
Increase in cash held for agent	-	6,028,216	-	-	-
Increase in leased assets	(28,667,930)	-	-	-	(28,667,930)
Increase in current liabilities	9,914,868	5,330,460	-	-	15,245,328
Net cash used in financing activities	7,108,129	11,358,676	-	-	18,466,805
Net increase (decrease) in cash	7,108,129	11,358,676	289	187,496	18,654,590
Cash and cash equivalents -- beginning of year	-	-	-	-	-
Cash and cash equivalents -- end of year	\$ 7,108,129	\$ 11,358,676	\$ 289	\$ 187,496	\$ 18,654,590

The accompanying notes are an integral part of the financial statements.

# INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site, and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

## SCHEDULE OF EXPENDITURES OF STATE AWARDS (Unaudited)

Year Ended June 30, 2015

State Grantor/Pass-Through Grantor/Program Title	Grant Contract Number	(Accrued) Deferred Grant Revenue Jun 30, 2014	Cash Receipts	Expenditures	(Accrued) Deferred Grant Revenue June 30, 2015
STATE GRANTS					
Tennessee Department of Finance and Administration:					
Volkswagen Grant 6.1	GG-09-26441-00	\$ (1,470,347)	\$ 3,615,667	\$ 2,429,280	\$ (283,960)
Volkswagen Grant 6.2	GG-09-26441-00	(52,583)	2,035,953	1,983,370	-
Volkswagen Grant 9.10	GG-09-27857-00	(679,798)	3,482	1,894	(678,210)
TOTAL EXPENDITURES OF STATE AWARDS		<u>\$ (2,202,728)</u>	<u>\$ 5,655,102</u>	<u>\$ 4,414,544</u>	<u>\$ (962,170)</u>

The Note to Schedule of Expenditures of Federal and State Awards is an integral part of this schedule.

# **INDUSTRIAL DEVELOPMENT BOARD OF THE CITY OF CHATTANOOGA**

(Limited to Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC's Expansion Site and Volkswagen Group of America Chattanooga Operations, LLC Partnership Agreement; and Tax Increment Financing and Economic Development Incentive Programs for the City of Chattanooga)

## **NOTES TO BASIC FINANCIAL STATEMENTS**

JUNE 30, 2015 AND 2014

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Organization and Nature of Activities**

The Industrial Development Board of the City of Chattanooga (the "Board") is a public corporation formed pursuant to the provisions of Tennessee Industrial Development Corporation Act. The Board performs public functions on behalf of the City of Chattanooga (the "City"), and its purpose is to undertake the financing and development of projects to promote industry, trade, commerce, tourism and recreation, and housing construction. The Board participates in these activities by serving as a non-recourse conduit for taxable or tax-free financing for industrial entities. The accompanying financial statements include the activities of Volkswagen Group of America, Inc.'s Project Site, Volkswagen Group of America Chattanooga Operations, LLC (VWGoA) Expansion Site, and Volkswagen Group of America Chattanooga Operations, LLC (VWGoA) Partnership Agreement as well as management of the City of Chattanooga's Tax Increment Financing (TIF) program and certain economic development incentives. The accompanying financial statements do not include projects of the Board other than those specifically mentioned.

The financial statements of the Board have been prepared in accordance with United States generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The more significant accounting policies are described below.

#### **Basis of Accounting**

The accompanying financial statements are prepared using the accrual basis of accounting. The measurement focus is upon determination of financial position, changes in net position, and changes in cash flows. The accounting principles used are those applicable to comparable businesses in the private sector. Revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. All assets and liabilities (whether current or noncurrent) associated with the Board's activities are included in the statement of net position.

#### **Financial Statement Presentation**

These financial statements distinguish operating revenues from nonoperating items. Operating revenues include city appropriation for economic development incentive programs and property tax payments from both the City of Chattanooga and the Hamilton County for TIF agreements. All revenues not meeting these definitions are reported as nonoperating revenues.

### **Basis of Presentation**

These financial statements distinguish operating revenues from nonoperating items. Operating revenues include city appropriation for economic development incentive programs and the accompanying schedule of expenditures of state awards includes the state activity of Project Site and Expansion Site of VWGoA and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Audit Manual of the State of Tennessee, Department of Audit. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash balances in banks, and cash held by the City of Chattanooga as the Board's agent. At June 30, 2015 and 2014, all cash is held by the City as the Board's agent and is designated for uses authorized by capital grant contracts. The City's policies limit deposits to those instruments allowed by applicable state laws. The deposits must be covered by state depository insurance or the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the State Reserve Banks acting as third party agents.

### **Leased Assets**

Leased assets (including infrastructure) are recorded at historical cost. Contributed assets are recorded at their estimated fair market value on the date contributed. Leased assets include public domain infrastructure assets consisting of roads, bridges, streets and sidewalks, sewers, lighting systems, and drainage systems. The Project Site and Expansion Site define leased assets as assets with an estimated useful life of three years or greater.

Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Any costs incurred for repairs and maintenance are expensed as incurred. Because the Board holds these assets in a lease for the Project and Expansion Sites, no depreciation expense is recorded.

### **Net Position**

The Board's financial statements utilize a net position presentation. Net position is categorized as net investment in leased assets, restricted and unrestricted. As of June 30, 2015 and 2014, the Project Site and Expansion Site have had no related debt.

**Net Investment in Capital Assets** – is intended to reflect the portion of net position which is associated with non-liquid capital assets less outstanding capital asset related debt.

**Restricted Net Position** – represents net position that has third party (statutory, bond covenant or granting agency) limitations on their use. The Board's policy is generally to use any restricted net position first, as appropriate opportunities arise.

**Unrestricted Net Position** – represents unrestricted net position. While management may have categorized and segmented portions for various purposes, the Board has the unrestricted authority to revisit or alter these managerial decisions.

## **Grant Revenue**

The Board is a recipient of grant revenues for the Project Site and Expansion Site, and recognizes these revenues (net of estimated uncollectible amounts, if any), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted to the Project Site before the eligibility requirements are met are reported as unavailable revenues. Some grants and contributions consist of resources that are restricted for capital purposes – to purchase, construct, or renovate capital assets associated with a specific program. These are reported separately from grants and contributions that may be used either for operating expenses or for capital expenditures of the program at the discretion of the Board.

## **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **NOTE 2 – DESCRIPTION OF THE PROJECT SITE, EXPANSION SITE AND SIGNIFICANT AGREEMENTS**

The Board has an administrative services agreement with the City of Chattanooga. The City provides administrative services to the projects and programs covered by these financial statements at no cost. These services include but not limited to legal, financial management, accounting and reporting, clerical and other ordinary, necessary services oversight, including the retention and maintenance of records.

**Project Site:** During the fiscal year ended May 31, 2009, VWGoA announced its decision to build a \$1 billion automotive production facility in Chattanooga, Tennessee. The announcement was the culmination of years of extensive economic development efforts by the City. The VWGoA facility is expected to contribute to the economic expansion of the City and the surrounding region for years to come. The Project Site is being developed for the VWGoA facility.

In connection with the development of the VW Project Site, the Board, the City, Hamilton County, Tennessee (the “County”), the State of Tennessee (including various state agencies), and the Greater Chattanooga Area Chamber of Commerce (the “Chamber”) executed a Memorandum of Understanding (MOU). The provisions of the MOU include:

- Term of 30 years to expire July 2038
- Identification of land parcels for the Project Site and Expansion Site
- State and local tax incentives
- Making the Project Site available and suitable for use by VW
- Training and administrative assistance
- Commitments of the City, the County, and the State of Tennessee
- Development of a Welcome Center

During the year ended May 31, 2009, the Board was awarded state grants for the Project Site, as follows:

1. Volkswagen Grant 6.1 totaling approximately \$79.6 million was awarded by the Tennessee Department of Finance and Administration for the development of the Project Site. In subsequent grant amendments, this amount was increased to \$96,019,864.
2. Volkswagen Grant 6.2 totaling approximately \$70 million was awarded by the Tennessee Department of Finance and Administration to provide additional infrastructure at the Project Site. The City and the County also committed to provide \$20 million each over four years for infrastructure.
3. Volkswagen Grant 9.10 totaling \$1,766,200 was awarded by the Tennessee Department of Economic and Community Development for the design and installation of sign for VWGoA facility and workforce recruitment campaign.
4. Volkswagen Grant 9.5 totaling \$6 million is pledged by the City and the County to be shared equally for the design and construction of the Welcome Center near the Project Site entrance.

With funding from a Tennessee General Assembly appropriation, Volkswagen Grant 6.1 was initially awarded in July 2008. The State of Tennessee decided in June 2009 to utilize bond proceeds rather than an appropriation to fund the Project Site. As a result, Volkswagen Grant 6.1 was amended. The amendment caused the Board to obtain additional documentation from contractors developing the Project Site in order to comply with the amended grant. The Volkswagen Grant 9.1 was amended by the State of Tennessee, Department of Economic and Community Development, and the Industrial Development Board of the City of Chattanooga for an additional \$1,766,200 to be awarded by the Tennessee Department of Finance and Administration. This amendment was made effective as of December 31, 2013.

The City and the County have worked diligently to develop the Project Site, and have provided funding, when needed, to prevent any interruptions in the development of the Project Site, and to ensure the Project Site is available and suitable for the VWGoA facility. Pursuant to the MOU, the City and County transferred land with a fair market value of \$10,000,000 to the Project Site during fiscal year 2010.

State grants 6.1 and 6.2 related to the Project Site expired effective June 30, 2015.

**Expansion Site:** In June 2014, a second MOU was entered into whereby the state awarded an additional \$165,778,000 in incentives subject to annual appropriation by the legislature in fiscal year 2016. An additional \$52.5 million was pledged by the City and County to be shared equally; of which \$20 million is appropriated in fiscal year 2015 and \$6,250,000 is appropriated in fiscal year 2016 by the City. The County appropriated the full amount in fiscal year 2015. These additional capital contributions support a VWGoA expansion to include a production line for a new sports utility vehicle and a national research and development center.

**Partnership Agreement:** In April 2015, the Board and VWGoA entered into a Partnership Agreement (“Agreement”) to facilitate the expansion of the original south body shop. There are no incentives involved in this \$16,300,000 Agreement where VWGoA is prefunding change orders to a contract for the Expansion. The amount was subsequently increased. The Board acts as an agent for this Agreement and incurs no revenue or expense.

**Tax Increment Financing:** The Board is the administrative agent of the City of Chattanooga’s TIF program. TIF’s are arrangements in which taxes are refunded to help develop or redevelop areas with the City. These agreements are authorized by T.C.A. section 13-20-205. The amount of tax refunded is based on the increased tax values in the TIF plan area over the based tax at implementation, less allowable municipal expenses.



Currently the Board administers a single arrangement for Black Creek Mountain. Tax year 2011 serves as the base year for the tax increments. The arrangement, approved in 2012, is effective for twenty years.

**Economic Development Incentive Programs:** The Board administers certain economic development incentives for the City of Chattanooga. As of June, 2015, there were two programs.

Growing Small Business is a program that provides incentives for businesses with one hundred or fewer employees that create five or more jobs within the prior twelve months. \$100,000 was provided by the City in 2015.

Technology Workforce Development is a program that helps to ensure Chattanooga's residents have the skills and training needed to work in the growing tech sector of the community. \$100,000 was provided by the City in 2015.

### **NOTE 3 – CONTINGENCIES**

The Project Site has received state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in reimbursements to the grantor agencies for expenditures disallowed under the terms of the grants. Management is not aware of any potential losses from such disallowances and believes that reimbursements, if any, would not be material.

The Board is involved in certain claims arising from normal business activities. Management believes that neither the financial position nor results of operations of the Project Site will be materially affected by the final outcome of these proceedings.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Industrial Development Board of the City of Chattanooga (IDB) was established in 1967 for the purpose of undertaking financing and development of projects to promote industry, trade, commerce, tourism, recreation, and housing construction in Chattanooga.

Pursuant to a July 2008 Memorandum of Understanding (MOU), as amended, by and among Volkswagen Group of America, Inc., the State of Tennessee, Hamilton County, the City of Chattanooga, the Chattanooga Area Chamber of Commerce and the Industrial Development Board, the IDB was awarded \$210.8 million in grants from the State of Tennessee as incentives to build a billion dollar automotive plant; an additional \$46 million in local government dollars were also pledged. In June 2014, a second MOU was entered into whereby the state awarded an additional \$165.8 million in incentives subject to annual appropriation by the legislature in fiscal year 2016. An additional \$52.5 million was pledged by the City and County to be shared equally; of which \$20 million is appropriated in fiscal year 2015 and \$6,250,000 is appropriated in fiscal year 2016 by the City. The County appropriated the full amount in fiscal year 2015. These additional capital contributions support a Volkswagen Group of America Chattanooga Operations, LLC (VWGoA) expansion to include a production line for a new sports utility vehicle and a national research and development center.

In April 2015, IDB entered into a partnership agreement with VWGoA to facilitate the expansion of the original south body shop. According to the agreement, an advance payment schedule was set up, so IDB would not incur any financial burden for the work. As of June 30 of 2015, \$12.2 million of the total agreement amount \$16.3 million was received by IDB.

In fiscal year 2014, IDB entered into a Tax Incremental Financing (TIF) agreement with Black Creek, LLC after the City Council approved the economic impact plan on resolution 27143. This TIF agreement refunds taxes to support infrastructure and commercial real estate development. The amount of tax refunded is based on the increased tax values in the TIF plan area over the base tax at implementation, less allowable city and county expenses.

In fiscal year 2015, the City of Chattanooga appropriated \$100,000 to IDB to fund a program called Growing Small Business Incentive. The program provides incentives for small businesses with 100 or fewer employees in the city to create more jobs. Also during the year, \$100,000 was appropriated to start the Technology Workforce Development program. This program will bring city residents, technology companies and our workforce training partners together to train and reskill our residents to embrace the future of Chattanooga.

As members of the Industrial Development Board of the City of Chattanooga, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Project and Expansion Site of VWGoA. for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented herein conjunction with additional information provided in the notes to the basic financial statements, which can be found beginning on page 11 of this report.

## FINANCIAL HIGHLIGHTS

- Net position at the end of the most recent fiscal year is \$241.8 million. \$241.6 million of that amount is invested in the development of the Project Site and Expansion Site of VWGoA automotive plant.
- Net position increased \$28.8 million primarily due to \$25.8 million in capital contribution from the Hamilton County and City of Chattanooga under the local grant of the MOUs.
- On June 30, 2015, the grant period for State grant 6.1 and 6.2 ended. It is anticipated the remaining grant dollars will be added to the expansion site grant.
- \$25.7 million of \$40.0 million budgeted for the local contribution in the 2<sup>nd</sup> MOU was spent during the year.
- Additionally \$12.2 million was received from VWGoA under the partnership agreement, of which \$5.3 million was payable to Gray Construction, Inc. for work performed on half of VWGoA.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here are intended to serve as an introduction to the financial statement of the Project and Expansion Site of VWGoA along with certain other economic development incentives managed for the City of Chattanooga and Hamilton County. Operations are accounted for in a single proprietary fund. The basic financial statements consist of financial statements and related notes to the financial statements.

The *Statement of Net Position* presents financial information on the Project and Expansion Site's assets and liabilities with the difference reported as net position. Net position is primarily invested in leased assets and represents the amount of grants dollars expended to build and equip the Project and Expansion Site. Costs incurred by VWGoA are not included.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported on an accrual basis as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, financial transactions are reported in this statement for some items that will only result in cash flows in future fiscal periods.

*Notes to the Financial Statements* provide additional information that is essential for a full understanding of the data provided in the financial statements.

The financial statements can be found beginning on page 8 of this report; notes to the financial statements can be found beginning on page 11 of this report.

## FINANCIAL ANALYSIS

Assets exceeded liabilities by \$241.8 million at the close of the most recent fiscal year; of this amount, \$241.6 million reflects investment in leased assets (e.g., land, buildings and infrastructure). An additional \$29,000 is restricted for construction and another \$162,420 is restricted for Economic Development Incentive Programs.

Net Position		
	2015	2014
Current and other assets	\$ 23,761,368	\$ 2,212,359
Leased assets	241,640,986	212,973,056
Total assets	265,402,354	215,185,415
Current liabilities	23,569,977	2,183,388
Net Position:		
Restricted	241,832,377	213,002,027
Total net position	\$ 241,832,377	\$ 213,002,027

Total assets increased \$50.2 million. This includes a \$28.7 million increase in leased assets and VWGoA Partnership advance payment of \$12.2 million received during the year. Liabilities also increased \$21.4 million which includes \$16.0 million increases in payments to suppliers and pending retaining payment and \$6.0 unspent advance payment received from VWGoA Partnership. There is no long-term debt associated with the Project and Expansion Site.

Changes in Net Position		
	2015	2014
Revenues		
City payment	\$ 278,285	\$ -
Hamilton County payment	32,907	-
Total revenues	311,192	-
Expenses		
TIF expenses	111,192	80,691
Grant award	37,580	-
Total expenses	148,772	80,691
Operating Income (loss)	162,420	(80,691)
Capital contributions:		
State grant 6.1	969,255	6,924,784
State grant 6.2	1,934,757	21,070
State grant 9.10	(1,588)	5,070
City of Chattanooga obliga	12,882,753	9,631
Hamilton County obliga	12,882,753	9,631
Private donations	-	22,522
Total capital contributions	28,667,930	6,992,708
Change in net position	28,830,350	6,992,708
Net position, beginning	213,002,027	206,009,319
Net position, ending	\$ 241,832,377	\$ 213,002,027

The net position increased \$28.8 million from the prior fiscal year as additional work was done on the Project and Expansion Site and additions of Economic Development Incentive Programs from the City.

## ANALYSIS OF BUDGETARY VARIATIONS

The budget for the Project and Expansion Site is on a cumulative basis. The difference reflects the amount of grant revenue remaining within the grant period. The Local 9.5 budget is for a visitor's center which will be restructured under the second MOU which began in FY15.

Budgetary Highlights		
	Estimated Revenues	Actual Revenues
Revenue Source:		
State of Tennessee 6.1	\$ 96,019,864	\$ 92,933,442
State of Tennessee 6.2	72,705,000	72,705,000
State of Tennessee 9.10	1,965,925	1,090,185
Local 6.2 1st MOU	40,000,000	39,086,748
Local 9.5	6,000,000	-
Private donations	90,525	90,525
Local 2nd MOU	40,000,000	25,735,086
	<u>\$ 256,781,314</u>	<u>\$ 231,640,986</u>

## LEASED ASSETS

The Project and Expansion Site's investment in leased assets is \$241.6 million. The investment in leased assets includes land and leased assets for the building and equipment. There is no depreciation recorded as this entire investment is leased to VWGoA under a 30 year Payment-in-Lieu-of-Tax Agreement provision in the MOU. The lease expires July 2038.

Leased Assets		
	2015	2014
Land	\$ 10,000,000	\$ 10,000,000
Leased assets	231,640,986	202,973,056
Total leased assets	<u>\$ 241,640,986</u>	<u>\$ 212,973,056</u>

## NEXT YEAR'S BUDGET

The Project Site and Expansion Site state grants are budgeted on a cumulative grant basis; nearly all remaining grant dollars are expended in fiscal year 2015. Ending dates for the grants are as follows:

State grant 6.1	Expired June 30, 2015	\$96,019,864
State grant 6.2	Expired June 30, 2015	\$72,705,000
State grant 9.10	Expires April 30, 2017	\$ 1,766,200

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Industrial Development Board of the City of Chattanooga activities related to the Project and Expansion Site of VWGoA, and certain other economic development incentives managed for the City of Chattanooga and Hamilton County. Questions concerning any of the information provided in this report should be addressed to the City of Chattanooga Finance Department who is acting as the fiscal agent of the board.

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